MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE FOURTH QUARTER AND FULL-YEAR 2011

To all Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the fourth quarter and full year ending December 31, 2011. Financial statements for fiscal year 2011 have been the subject of review by the Statutory Auditors.

To make the discussion of revenues and earnings as relevant as possible, detailed comparisons between 2011 and 2010 are based on 2010 exchange rates ("like-for-like") unless stated otherwise.

The comparison with figures for 2007, the last year before the onset of the economic and financial crisis, has been maintained in order to measure the return to normal business activity and the strengthening of Lectra's key operating ratios.

1. SUMMARY OF OPERATIONS FOR Q4 2011

With an average parity of \$1.35/€1, the U.S. dollar was essentially stable compared to Q4 2010 (\$1.36/€1). This slight change and that of other currencies, mechanically increased revenues for the quarter by 1% and income from operations by €0.3 million (+4%) at actual exchange rates, compared to like-for-like figures.

Orders Slowed by a Renewed Deterioration of Economic Conditions

The vigorous sales growth seen in the first half of 2011(when orders for new software licenses and CAD/CAM equipment rose 24% relative to the first half of 2010) was weakened in Q3 (+4% relative to Q3 2010). The accelerated deterioration of the economic, financial and monetary climate in the closing months of 2011 increased concerns and weighed heavily on companies' investment decisions, leading to a significant fall in orders in Q4.

With a total of €14.7 million, orders for new software licenses and CAD/CAM equipment were down 34% compared to Q4 2010 (€22.1 million). Orders for new software licenses were down 20%. Orders for CAD/CAM equipment were more affected by customers' hesitations, with a fall of 40%.

After progressing at a steady pace (+13%) in the first nine months, revenues from spare parts and consumables (€11.8 million) were moderately up (+3%) relative to Q4 2010.

Revenues and Financial Results in Line with Company Expectations

Revenues from new systems sales (€24.3 million) were up 6%. Recurring revenues (€28.3 million) were up 2%, reflecting a 1% increase in revenues from recurring contracts and a 3% increase in revenues from spare parts and consumables.

Given that orders booked for new software licenses and CAD/CAM equipment were lower than revenues, the order backlog of €10.5 million was down sharply relative to the September 30, 2011, figure of €17 million.

Revenues totaled €52.6 million, up 4% relative to Q4 2010—up 5% at actual exchange rates.

Income from operations amounted to €7.2 million, and the operating margin was 13.8%. They increased €0.7 million and 0.9 percentage point respectively, relative to Q4 2010 income from operations before non-recurring items and to the operating margin before non-recurring items, like-for-like (+€1 million and +1.4 percentage points at actual exchange rates).

Net income was €4.6 million, an increase of €0.9 million at actual exchange rates compared to Q4 2010, when net income was reduced by a non-recurring charge of €1.1 million. There were no non-recurring items in Q4 2011. Excluding Q4 2010 non-recurring items, net income rose by €0.1 million.

Free cash flow was €1.4 million, which was lower than the Company's expectations of October 27 due to weak orders. There were no non-recurring disbursements.

Q4 2010 free cash flow before non-recurring items was €7.2 million. Including the €15.1 million received relating to the Induyco litigation, and non-recurring disbursements of €0.1 million, free cash flow was exceptionally high, at €22.2 million.

2. SUMMARY OF EVENTS AND PERFORMANCE IN 2011

Record Financial Performance, for the Second Consecutive Year

The rebound in activity in 2010 led to record financial results for Lectra and enabled it to enter 2011 with stronger key operating ratios, a radically transformed balance sheet, and a solid order backlog.

In its report of February 10, 2011, the company nevertheless stated that it had to continue to be cautious and vigilant, as analysts agreed on the recovery's fragility and on the possibility of another deterioration in the economic and monetary situation, especially in Europe and the United States.

In this context, Lectra's 2011 action plan sought to continue the sales momentum regained since the end of 2009, an operating margin equal to or greater than that of 2010, and significant free cash flow generation. As in prior years, the main uncertainty concerned the level of revenues from new systems sales, which is heavily dependent on the economy. Moreover, the very strong rebound in sales activity together with the outstanding results and free cash flow achieved in 2010 constituted a high basis of comparison for 2011; growth rates could not do otherwise than lessen.

Financial results for the year are in line with the central scenario announced by the company on February 10, 2011, as updated only by the impact of exchange rate fluctuations (particularly with an annual average parity of $1.39/€1, instead of the $1.35/€1 exchange rate assumed at the beginning of the year).

Revenues amounted to €205.9 million, with an income from operations before non-recurring items of €28.9 million and an operating margin of 14%, rising by 10%, 35%, and +2.7 percentage points respectively, relative to 2010. Net income at €19.2 million was superior to estimates announced at the beginning of the year, rising by +35% at actual exchange rates, relative to the 2010 figure restated for non-recurring items. Free cash flow (€14.2 million) was in line with expectations.

Lectra registered another record financial performance in 2011, after that achieved in 2010. This performance was even more remarkable given that the macroeconomic environment was worse than expected. Global economic conditions were impacted by the tragic disasters in Japan and the floods in Thailand in addition to the geopolitical crises in certain North African and Middle Eastern countries, as well as by a new context of economic, financial, and monetary crisis starting in July. Causes of this new deterioration included rising concerns over sovereign debt in the United States and certain European countries, the crisis of the eurozone, renewed turmoil in the financial markets, and the (sometimes sharp) downward revisions of growth forecasts for 2012 and 2013 in most developed and emerging countries.

Orders Remain Stable, Coming After Very Strong Growth in the First Half

On the strength of its technology and services offer, the company fully benefited from a partial return to more dynamic macroeconomic conditions in most of its geographic markets and market sectors in the first half of 2011, before entering a period of slowdown in Q3. The worsening of the economic climate in the closing months of 2011 increased concerns and weighed heavily on companies' investment decisions, leading to a significant fall in orders in Q4.

Overall, orders for new software licenses and CAD/CAM equipment amounted to €78.4 million, a rise of 2% relative to orders in 2010. The latter had already increased 51% relative to 2009, a year severely affected by the crisis.

The situation in the different regions and market sectors remains heterogeneous, with wide disparities in some cases.

The orders for new software licenses fell 4%; those for CAD/CAM equipment were up 5%. This difference stems primarily from the market sector mix: while the automotive sector once again recorded a very strong increase of 64% (after a rise of 115% in the same period in 2010 relative to 2009), the fashion sector was down 22%. For the first time in the company's history, the relative share of the automotive market was very close to that of the fashion sector, with respectively 41% and 45% of total orders (26% and 58% in 2010). Furniture and other industries were down 12% and 11%.

Emerging Countries Have Rebounded Faster and are Close to their Pre-Crisis Levels

Orders booked in the Americas jumped 17%—driven by the United States and Mexico—while they rose 10% in the Asia-Pacific region. In Europe they were down 5%, with the Eastern European countries registering strong growth and the others a decline, and in the rest of the world (Northern Africa, South Africa, Turkey, the Middle East, etc.) they were down 35%. Orders in emerging countries increased 7%; those in developed countries dropped 3%.

Penalized by the state of the global economy in the second half of the year, aggregate activity with all clients has yet to return to pre-crisis levels. Relative to 2007, orders were still down 27% overall.

While the vitality of the emerging countries—powered by China (+17%), Brazil (+28%), and Mexico (+77%)—have for the most part caught up after their shortfall, now behind by only 6% compared to 2007, developed countries are still lagging behind by 42%.

Currently, emerging countries account for the majority of aggregate orders, their share rising from 41% in 2007 to 53% in 2011.

Revenues Continue to Grow

Revenues for 2011 totaled €205.9 million, up 10% like-for-like and 8% at actual exchange rates, compared to 2010. In 2010, they had already risen 20%, following sharp falls in 2008 and 2009.

Growth worked out to 1% in Europe, 12% in the Americas, and 34% in the Asia-Pacific region. These three regions accounted for 48% (including 10% for France), 21%, and 26% of total revenues respectively. Revenues from the rest of the world, representing 5% of total Group revenues, decreased 11%.

Although orders were stable, revenues from new systems sales (€97.7 million) increased 18% thanks to the strong opening order backlog. Recurring revenues (€108.2 million) increased 3%, with a decrease of 1% in revenues from recurring contracts and an increase of 10% in revenues from spare parts and consumables. The latter registered a historic record of €43.7 million (representing 21% of aggregate revenues), reflecting the growth in production volumes and the expanding installed base.

Revenues from new systems sales regained their position as Lectra's growth driver in 2010 and 2011, after the crisis years of 2008 to 2009, when recurring revenues demonstrated their key role as an essential stabilizing factor and cushion for the company.

Order Backlog Down Sharply

Orders for new software licenses and CAD/CAM equipment were below corresponding revenues; the order backlog (€10.5 million) is thus down sharply relative to December 31, 2010 (€18.5 million). This decline is a direct result of the significant slowdown in orders in the closing months of the year.

The order backlog at December 31, 2011, comprised €9.2 million for shipment in Q1 2012 and €1.3 million over the rest of the year.

Overhead Costs Rise More Moderately Than Expected

As early as July 2008, the company adopted measures intended to limit expenses, slowing recruitment and tightening its grip on overhead costs. These measures, which were reinforced in 2009 and 2010, enabled the company to cut fixed overhead costs by €25 million, or 20%, relative to 2007 (€123.8 million).

Meanwhile, in order to reinforce its competitiveness and its technology lead, the company continued to invest steadfastly in research and development (R&D expenditures being expensed in full and included in fixed overhead costs).

With a total of €102.1 million, fixed overheads costs rose only €2.1 million (+2%). In the final outturn they were lower than anticipated (the company having forecast a rise of 4% at the beginning of the year), due in particular to certain postponed recruitments.

At the same time, variable costs (€13.3 million) rose 7%.

Income from Operations and Net Income Up Very Sharply—Operating Margin Rises to a New Historic High

Income from operations reached €28.9 million. Like-for-like, it was up €7.9 million (+35%) relative to income from operations before non-recurring items in 2010. At actual exchange rates, it improved by €6.1 million, while revenues increased €15.6 million; this increase represents close to 40% of the increase in revenues.

Income from operations in 2010 benefited from a non-recurring net gain of €2.2 million. There were no non-recurring items in 2011.

At 14%, the operating margin rose once again compared to the operating margin before non-recurring items in 2010, which had already reached a record 12%. Its highest previous level was 10% in 2000. This standout performance is particularly noteworthy given the prevailing economic climate of 2011.

Comparison with 2007 illustrates the improvement in the company's operating ratios during the crisis years and shows the relevance of the strategic plan mapped out at the end of 2009. Like-for-like, despite a €13.8 million (– 6%) decline in revenues—which was due mainly to the decrease in new systems sales, as recurring revenues (after having been impacted) exceeded their pre-crisis levels by 3%—income from operations before non-recurring items multiplied by 2.5. The operating margin was up 8.5 percentage points. This performance can be attributed to a 3-percentage-point increase in gross profit margin and a €22.9 million (– 18%) reduction in fixed overhead costs.

Net income was €19.2 million, representing 9.3% of revenues, compared to €15.6 million in 2010.

Lectra Obtains *Exequátur* in Spain of the October 2009 Award Rendered by the International Arbitral Tribunal against Induyco

In a decision of *exequátur* issued on June 27, 2011, the Madrid Court of First Instance recognized the arbitral award rendered against Induyco in October 2009 by an International Arbitral Tribunal seated in London, which had awarded Lectra total damages of €26 million (as at December 31, 2011).

Confirming the validity and enforceability of the award in Spain, this decision represents a major milestone in the settlement of this dispute.

Induyco appealed this judgment, and the two parties have submitted their written findings. The Madrid Court of Appeal is expected to hand down its decision in late 2012 or early 2013.

Induyco having appealed the June 27, 2011, decision, this decision does not entail any modification of the recognition of the award in the company's financial statements: the company has only recorded the €15.1 million received in 2010 which resulted in a non-recurring gain of €3.3 million in the third quarter. The €10.9 million balance still due by Induyco will only be recorded upon its receipt *(see note 8 of the notes to this report)*.

A Transformed Balance Sheet, Returning to a Positive Net Cash Position

With free cash flow of €14.2 million (bringing cumulative free cash flow before non-recurring items generated in 2010 and 2011 to €45.2 million, and to €58.6 million after non-recurring items), the net cash position is positive at €8.6 million at December 31, 2011, whereas the company had net financial debt of €2.4 million at December 31, 2010, and of €47.8 million on December 31, 2009. This therefore represents an improvement of €11 million in the fiscal year and €56.4 million in two years, after payment of a total dividend of €5.2 million in May 2011. No dividend had been paid since 2007.

At the same time, shareholders' equity rose €16.7 million to €58.7 million.

Restated for the (French) research tax credit of 2010 and 2011, which has not been received and has not been offset against a tax charge, the working capital requirement was negative at €11.5 million. This is a key feature of the company's business model.

3. CONSOLIDATED FINANCIAL STATEMENTS FOR 2011

With an average parity of $1.39/€1, the U.S. dollar was down by nearly 5% compared to 2010 ($1.33/€1). This change, and that of other currencies, mechanically reduced revenues by 1% and income from operations by €1.9 million (– 6%), at actual exchange rates, compared to like-for-like figures.

Revenues

Revenues for 2011 totaled €205.9 million, up 10% like-for-like and up 8% at actual exchange rates compared to 2010.

Revenues from new systems sales

Revenues from new software licenses (€25.3 million) increased 8% and, as in 2010, contributed 12% of total revenues.

CAD/CAM equipment revenues (€63 million) were up 25% and accounted for 31% of total revenues (compared to 27% in 2010).

Revenues from training and consulting (€8.9 million) were up 5%.

Overall, revenues from new systems sales (€97.7 million) increased 18% and represented 47% of total revenues (compared to 44% in 2010). This 3-percentage-point increase reflects dynamic sales activity from Q4 2009 to the end of H1 2011.

Revenues from recurring contracts and spare parts and consumables

Recurring revenues (€108.2 million) increased €3.3 million (+3%). They accounted for 53% of total revenues (compared to 56% in 2010).

Revenues from recurring contracts totaled €62.6 million and represented 58% of recurring revenues and 30% of total revenues. After falling due to unusually high cancellation rates in 2008 and 2009 as a result of the crisis and to a weak rebound in 2010, these revenues have now essentially stabilized (–1%).

Concerning almost two-thirds of Lectra's 23,000 customers, revenues from recurring contracts break down as follows:

- software evolution contracts (€29.8 million), up 1% compared to 2010 and representing 14% of total revenues (16% in 2010);
- CAD/CAM equipment maintenance contracts and subscription contracts to the Group's five International Call Centers (€32.8 million), down 3% and representing 16% of total revenues.

Meanwhile, revenues from spare parts and consumables (€43.7 million) grew 10%.

Gross Profit Margin

The overall gross profit margin worked out to 70.1%. Like-for-like, it came to 70.4%, down 1.1 percentage points relative to 2010 (71.5%).

Changes in the product mix, with a rise in the share of CAD/CAM equipment and spare parts and consumables in total revenues, for which specific margins are lower than for the other revenue components, mechanically entailed a fall in the overall gross profit margin.

This effect was cushioned by the sharp rise like-for-like in margins on each product line, and in particular on CAD/CAM equipment, again demonstrating their robustness despite major pressure from competitors, which was further heightened by the crisis.

This excellent performance constitutes one of the successes of Lectra's 2011 action plan, demonstrating the competitiveness and high added value of its offer.

It is important to note that personnel expenses and other operating expenses incurred in the execution of service contracts are not included in the cost of sales but are recognized in selling, general, and administrative expenses.

Overhead Costs

Total overhead costs were €115.4 million, up €2.9 million (+2.6%) compared to 2010. They break down as follows:

- €102.1 million in fixed overhead costs, up €2.1 million (+2%);
- €13.3 million in variable costs, up €0.9 million (+7%).

Research and development costs were fully expensed in the period and included in fixed overhead costs. Before deducting the research tax credit applicable in France and certain R&D program grants, R&D costs amounted to €18.2 million and represented 8.9% of revenues (compared to €16.1 million and 8.5% in 2010). Net R&D costs after deduction of the French research tax credit (the aggregate rate of which was lower in 2011 as a result of tax changes) and grants amounted to €11.5 million (€9.5 million in 2010).

Income from Operations and Net Income

Income from operations was €28.9 million. Like-for-like, it amounted to €30.8 million, an increase of €7.9 million (+35%) relative to income from operations before non-recurring items for 2010 (€22.8 million). At actual exchange rates, it increased €6.1 million (+27%).

The operating margin was 14%. Like-for-like, it worked out to 14.7% and increased 2.7 percentage points compared to the operating margin before non-recurring items of 2010 (12%). This represents an increase of 2 percentage points at actual exchange rates.

Financial income and expenses represent a net charge of €1.5 million. The balance of foreign exchange gains and losses was a negative €0.2 million.

After an income tax charge of €8 million, net income was €19.2 million (or 9.3% of revenues). Net income increased €3.6 million at actual exchange rates relative to net income in 2010, which had benefited from a non-recurring gain of €3.3 million in connection with the €15.1 million resulting from the arbitration against Induyco and which had registered a €1.1 million non-recurring charge. There were no non-recurring items in 2011. Excluding non-recurring items, net income was up €5.0 million (+35%).

Net earnings per share on basic capital (€0.67) increased 20% and on diluted capital (€0.65) 18% at actual exchange rates (€0.56 and €0.55 in 2010). Excluding non-recurring items of 2010, the increase works out to 34% and 30%, respectively.

Free Cash Flow

Free cash flow amounted to €15.2 million before non-recurring items (€30 million in 2010). The 2010 figure included €6.2 million arising from early repayment of the 2009 research tax credit, the French government having rescinded in 2011 this measure which was part of its economic stimulus plan.

After €1 million in non-recurring disbursements, free cash flow amounted to €14.2 million (€44.4 million in 2010 after receipt of a non-recurring amount of €14.4 million). This figure results from cash flow provided by operating activities of €17.7 million (out of which an increase in working capital requirement of €9.9 million) and used in investing activities of €3.5 million *(see note 7 of the notes to this report)*.

The 2011 research tax credit (€5.5 million) was registered but not received.

If the research tax credit of 2011 had been received, free cash flow before non-recurring items would have amounted to €20.7 million, exceeding net income by €1.5 million.

Shareholders' Equity

At December 31, 2011, consolidated shareholders' equity amounted to €58.7 million (€42 million at December 31, 2010).

This figure is calculated after deduction of treasury shares held solely within the Liquidity Agreement with SG Securities (Société Générale), carried at cost, i.e., €0.7 million (versus €0.4 million at December 31, 2010). It is also calculated after deduction of the total dividend of €5.2 million paid in respect of fiscal year 2010, as decided by the Ordinary Shareholders' Meeting of April 29, 2011.

Cash and cash equivalents totaled €26.3 million (€30.2 million at December 31, 2010) after early repayment by the company, at its own initiative, of €10 million on its medium-term bank loan, on December 31, 2011.

Financial borrowings totaled €17.7 million (€32.6 million at December 31, 2010), of which:

- €15.9 million corresponds to the medium-term bank loan put in place to finance the public stock buyback tender offer for 20% of the company's share capital, carried out in May 2007. In 2010, the company made the first two contractual repayments, each of €3.8 million, as well as a first early reimbursement of €10 million on December 31, this being deducted from the contractual installments payable in 2011. In 2011, the company made two additional early reimbursements: €3.8 million on June 30 in compliance with the contractual excess cash flow clause, and €10 million on December 31; this reduced the contractual installments payable in 2012 to €0.6 million.
- €1.8 million corresponds to interest-free government advances to help finance R&D programs.

Consequently, the net cash position was positive at €8.6 million at December 31, 2011, whereas the company had a net financial debt of €2.4 million at December 31, 2010.

The working capital requirement at December 31, 2011, was negative at €1.4 million. It comprised a receivable of €10.1 million corresponding to the (French) research tax credit of 2010 and 2011, which has not been received and has not been offset against a tax charge. Restated for this receivable, the working capital requirement was negative at €11.5 million. This is a key feature of the company's business model.

Given the improvement in the company's financial ratios, the margin on interest due on the medium-term loan was reduced from 1.85% in 2010 to 0.95% as at January 1, 2011, in accordance with the loan contract (*see note 10.2 of the notes to this report*).

4. APPROPRIATION OF EARNINGS

In light of the company's excellent financial performance in 2010, the Board of Directors resumed its policy of dividend payments and declared a dividend of €0.18 per share in respect of fiscal 2010. This policy had been interrupted in 2008 in respect of fiscal 2007, as a result of the public stock buyback tender offer, and then in fiscal 2008 and 2009 due to the impact of the economic crisis on the company's earnings and net debt.

Confirming its confidence in the company's future prospects, despite new macroeconomic turbulence, the Board of Directors will propose at the upcoming Shareholders' Meeting of April 27, 2012, that a dividend of €0.22 per share be declared in respect of fiscal 2011, representing a 22% increase.

Subject to approval by the Shareholders' Meeting, the dividend will be made payable on May 10, 2012.

5. COMPOSITION OF THE BOARD OF DIRECTORS

The Board of Directors learned with great sadness of the passing of Louis Faurre, on October 26, and of Hervé Debache, on November 29, two independent directors of the company who have made a major contribution to its work over many years.

The Board of Directors coopted Anne Binder on October 27 and Bernard Jourdan on December 21 as independent directors of the company, replacing Louis Faurre and Hervé Debache, respectively, for the remainder of their terms of office, i.e., until the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ending December 31, 2013 *(see biographies appended to this report)*.

As required by French law, these temporary appointments will be submitted for ratification to the Shareholders' Meeting of April 27, 2012.

Anne Binder and Bernard Jourdan were also nominated to succeed Louis Faurre and Hervé Debache on the Strategic Committee (which André Harari will continue to chair), the Audit Committee, and the Compensation Committee (for which Bernard Jourdan has been named Chairman).

6. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At December 31, 2011, share capital totaled €28,036,501.70, divided into 28,903,610 shares with a par value of €0.97. It was €27,644,043.58, divided into 28,499,014 shares, at December 31, 2010.

Share capital has increased by 404,596 shares since January 1, 2011, resulting from the exercise of stock options (€0.4 million par value together with total additional paid-in capital of €1.4 million).

On April 18, 2011, Société Financière de l'Echiquier (France), on behalf of investment funds managed by it, reported that it had fallen below the threshold of 10% of the company's voting rights, and that at that date it held 10.16% of the capital stock and 9.99% of the voting rights. On June 8, 2011, it reported that it had increased its holding above the 10% threshold of voting rights, and that at that date it held 10.21% of the capital stock and 10.04% of the voting rights.

No other crossing of statutory thresholds has been notified to the company since January 1, 2011.

At the date of publication of this report, to the company's knowledge, the main shareholders are:

- André Harari and Daniel Harari, who together hold 38.5% of the capital and 38% of the voting rights;
- Société Financière de l'Echiquier and Delta Lloyd Asset Management N.V. (Netherlands), each of which holds more than 10% (but less than 15%) of the capital and voting rights, on behalf of investment funds managed by them.

Treasury Shares

At December 31, 2011, the company held 0.5% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement managed by SG Securities (Groupe Société Générale).

Share Price Performance and Trading Volumes

In 2011, Lectra's share price recorded a low of €4.12 on January 3 and a high of €6.81 on April 7. According to Euronext statistics, the number of shares traded (6.3 million) was down 7%, and trading volumes (€35.9 million) rose more than 63% compared to 2010.

After rising sharply in 2010 (+86%), following two years of substantial falls because of the financial crisis, the share price continued to increase, rising to its peak on April 7, representing a cumulative increase of 200% in fifteen months. During that period the number of shares traded (10.7 million) practically doubled, and the capital volume traded (€43.6 million) more than tripled. As from that date, and through to December 31, 2011, the share price fell 32% in increasingly narrower trading volumes (3.6 million shares traded in the first three months of 2011, versus 2.7 million in the last nine months), ending at €4.60. Consequently the year-on-year rise in the share price was limited to 10% (€4.19 at December 31, 2010).

Lectra's share price performance in 2011 deserves mention: during the same period, the CAC 40 and CAC Mid&Small indexes declined 17% and 21% respectively. This was even more pronounced over the two-year period 2010-2011, with Lectra's share price rising 104%, compared to a 20% and 7% drop in the CAC 40 and CAC Mid&Small indexes respectively.

NYSE Euronext has notified the company that Lectra's shares will be admitted to the Deferred Settlement Service (SRD "Long only") on February 24, 2012.

7. POST-CLOSING EVENTS

No significant event has occurred since December 31, 2011.

8. FINANCIAL CALENDAR

The annual Shareholders' Meeting will be held on April 27, 2012.

The quarterly financial results for 2012 will be published on April 26, July 26, and October 25, 2012, respectively, after close of trading on NYSE Euronext. The full-year 2012 results will be published on February 12, 2013.

9. BUSINESS TRENDS AND OUTLOOK

The year 2011 ended with the return to a situation of economic, financial, and monetary crisis, of unknown scale and duration, in addition to downward revisions of growth forecasts for 2012 and 2013 for most developed and emerging countries. Upcoming elections in several countries could further accentuate uncertainties.

Corporations are once again at risk of facing restrictions on bank loans and greater difficulty in financing capital expenditures. Even more than deteriorating macroeconomic conditions, the alternation of good news and bad news, the lack of visibility, and the growing concerns of companies so long as there are still no signs of a sustainable improvement in the economy will weigh heavily on those companies' investment decisions.

The clear and ambitious 2010-2012 strategic roadmap, formulated at the end of 2009, amply demonstrated its pertinence in 2010 and in 2011. Today, its overriding objectives remain unchanged: accentuate Lectra's technological leadership and the high added value of its products and services offer across all markets; strengthen its competitive position and its long-term relationships with customers; accelerate organic growth once the crisis has ended; boost profitability by regularly increasing operating margin; and generate free cash flow in excess of net income (assuming that the French research tax credit recognized in the year is received or used) serving to finance its future growth from its own cash.

Moreover, the decision made in 2005, after deep consideration, to maintain Lectra's R&D and production in France has enabled it to meet the three challenges it faced: compete with the low-cost products of its international competitors that had relocated to China and those of its Asian competitors; increase its competitiveness even in the event of a persistently weak dollar/euro parity; and boost its margins. This decision has also enabled Lectra to protect its industrial property, an achievement which is attributable to innovation.

While the increase of wages and social charges in China, as well as the inflation and appreciation of the yuan, have since negatively impacted production costs, the strong increase of Lectra's gross profit margins on each product line, in particular CAD/CAM equipment, has raised the aggregate rate to its historical high, confirming again in 2011 its competitiveness and high value added of its offer.

The Company has Decided to Focus on its Long-Term Strategy

The company enters 2012—another year of economic, financial, and monetary crisis which, experts agree, will be not only difficult but also unpredictable—with totally different financial and operating fundamentals compared to the eve of 2008-2009.

Its historic financial performance in 2010 and 2011 has again demonstrated its resilience. Its balance sheet has been radically transformed and is now very strong, thereby eliminating any liquidity risk for the coming years: the net financial debt of €56.4 million at December 31, 2008, has been erased, replaced by €8.6 million in net cash, and shareholders' equity has increased by €16.7 million to €58.7 million.

In addition, the company has continued to invest in R&D, spending a cumulative €68.6 million during the crisis period 2008-2011, fully expensed, and has renewed and expanded its technology offer.

Finally, despite even tougher competition as a result of the economic climate, Lectra has reinforced its margins on all its product lines, raising its operating margin from 5% in 2007 to 14% in 2011.

Should the euro's weakness against the dollar continue, the parity having started the year below the $1.30 /€1 mark, this would be a beneficial factor in the company's competitiveness.

On the other hand, the sharp drop in sales activity in the closing months of 2011 penalized the order backlog at January 1, starting the year €8 million below the prior year's figure. Orders could remain weak for all or part of the year, until business investments pick up again.

Given this lack of visibility, caution and vigilance must be maintained.

In this context, the company has decided to give precedence to its long-term strategy, rather than to profitability in 2012—which will nonetheless remain higher than its pre-crisis level. Its first established priority is to bolster its roadmap to accelerate its growth and its capacity to create value for its customers—its primary objective—and hence also for its teams and shareholders.

Innovation, human capital, and proximity to customers continue to drive Lectra's leadership. That is why strengthening its sales and marketing teams and pursuing its steadfast investment in R&D constitute the keys to accelerating the company's full-scale transformation plan over the next 24 months. This will enable the company, as soon as the economic crisis ends, to fully realize its growth potential in its most promising geographic markets and market sectors.

Considering the drastic cuts already made over the last few years, these expenditures to build for the future will be only partially offset by further reductions of certain operating costs. This plan will therefore result in a more significant rise in fixed overhead costs than in 2011, although they will continue to be very tightly controlled.

2012 Outlook

Given the uncertain state of the economy, the company has formulated two revenue and income hypotheses. Key financial features of the 2012 plan are (like-for-like variations):

- keeping gross profit margins on the different product lines at their 2011 levels, or slightly increasing them;
- a small increase of around 1% to 3% in recurring revenues. Recurring contracts are expected to remain stable or to grow slightly. Sales of spare parts and consumables should increase between 2 and 5%, given the increase in the installed base and the activity and output at customer firms;
- fixed overhead costs of around €112.5 million, up €8.9 million (+ 8.6%) relative to 2011, half of this increase being due to the acceleration of the company's transformation plan, if it proceeds as intended;
- keeping the security ratio (i.e. the percentage of annual fixed overhead costs covered by the gross profit generated by recurring revenues) close to 78%.

As in previous years, the main uncertainty concerns the level of revenues from new systems sales. Regardless of the hypotheses used regarding orders for new systems booked, revenues would continue to be affected by the low order backlog at the beginning of the year and would be lower than the total figure for corresponding orders in 2012.

Given the level of the order backlog at January 1, Q1 2012 revenues and income from operations are expected to be down relative to Q1 2011, at a level of approximately €47 million and €3 million respectively.

Assuming economic conditions in the first half of the year remain as deteriorated as they were in Q4 2011 and then return to their level of the first half of 2011, orders for new systems in fiscal 2012 could rise 4% relative to 2011, with revenues from new systems sales declining approximately 9%, resulting in total revenues of around €206 million (stable relative to 2011 at actual exchange rates, and down 3% like-for-like). Income from operations before non-recurring items would come to around €21 million (– 34%), thereby generating an operating margin before non-recurring items of around 10% and a net income of around €14 million (– 27% at actual exchange rates).

The company's ambition is to achieve higher growth. The leverage effect remains significant: for every €1 million in revenues from new systems sales added to or subtracted from the corresponding figure of the central scenario, the resulting income from operations would vary accordingly by approximately €0.45 million.

Should the economy remain as weak throughout the year as it was in Q4 2011, the action plan would be slowed, and certain operating costs would be cut more drastically if required by the level of orders. Orders for new systems could fall 17% in that case, with corresponding revenues falling around 24%. This would result in total revenues of approximately €190 million, equivalent to their 2010 level at actual exchange rates. Income from operations before non-recurring items would come to around €15 million, thereby generating an operating margin before non-recurring items of approximately 8%, and net income of approximately €10 million—higher financial performance than in pre-crisis years.

Under both these hypotheses, free cash flow should exceed net income less the 2012 (French) research tax credit (around €5.7 million), capital expenditures being limited to around €5–€6 million (and R&D expenditures being expensed in full).

These figures are based on an average parity of $1.30/€1 in 2012.

An average rise in the dollar of $0.05 against the euro would mechanically increase revenues by around €2.5 million and income from operations by around €1.3 million. Conversely, a fall in the dollar of $0.05 would decrease revenues and income from operations by the same amounts. On January 23, 2012, the company hedged its U.S. dollar exposure for the first quarter of 2012 by means of forward sales at a parity of $1.30/€1. It has not hedged its exposure beyond that time.

The Company is Confident in its Medium-Term Growth Prospects

Net income and free cash flow expected for 2012 will continue to bolster the company's cash position and its balance sheet, which would be further reinforced by the receipt of the €10.9 million outstanding in respect of the damages awarded to the company by the international arbitral tribunal. Lectra's current objective is to continue its dividend payment policy and to preserve its cash in order to finance targeted acquisitions in the future, should such opportunities arise, with organic growth financed from its own cash thanks to the company's business model.

As the very strong rebound in orders in 2010 and in the first half of 2011 showed, once the crisis is definitely over, companies in the different geographic markets and market sectors served by the company will need to accelerate their investment plans or make good the investments they have either frozen or postponed over several years and to acquire the technologies necessary to boost their competitiveness. The crisis and its further developments in 2012 have amplified the challenges they face.

Bolstered by its performance in 2011 and with the pertinence of its 2012 action plan, the company is confident in the strength of its business model and its growth prospects for the medium term.

The Board of Directors

February 9, 2012

Company Certification of the Fourth Quarter and Fiscal Year 2011 Report

We certify that, to our knowledge, the financial statements have been prepared in accordance with currently applicable accounting standards and provide a fair view of the assets, financial condition, and results of the company and of its consolidated companies. We further certify that the report on operations for the fourth quarter and for the fiscal year 2011 presents a true and sincere view of the significant events that occurred during the year and their impact on the financial statements, and a description of the main risks and uncertainties faced by the company.

Paris, February 9, 2012

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

Biographies of New Directors

Anne Binder

Anne Binder, 61, Director of Lectra since October 27, 2011.

Anne Binder is currently a consultant in financial strategy and an independent Director for essentially non-publicly traded companies (luxury goods, electronics, telecommunications, …). From 1993 to 1996 she was the Executive Manager in charge of the development in France of GE Capital (international financial services group) and Director of its French subsidiary. From 1990 to 1993, she was the Chief Executive Officer of the holding company and Deputy Chief Executive Officer of Euris investment fund (investments in industrial companies). From 1983 to 1990, she participated in the creation and was General Manager of the French Pallas group (bank and investment). Prior to that, she was an associate manager for Générale Occidentale (bank and industrial holding) from 1978 to 1982. At the beginning of her career, she was a consultant at Boston Consulting Group and then associate manager at Lazard Frères Bank in Paris.

Anne Binder is a Director of Fastpaperflow (an office furniture company) and member of the strategic committee of AM France, which manages Alternativa (new European exchange market for small and medium-sized growth companies). She is also Vice-Chairman of the French National Chamber of Financial Expert Consultants, a Director of the INSEAD foundation, and trustee for the INSEAD alumni fund.

Anne Binder graduated from the Institut d'Etudes Politiques of Paris. She also has a BA from the Paris faculty of law and a Master in Business Administration from INSEAD in Fontainebleau, France.

Bernard Jourdan

Bernard Jourdan, 67, Director of Lectra since December 21, 2011.

Bernard Jourdan is currently an independent strategy and management consultant. From 1995 to 2005, he was member of the Board of Directors and Executive Vice President of the SPIE Group, a European leader in electrical and mechanical engineering and heating, ventilation and air conditioning services, energy and communication systems.

From 1990 to 1995 he was Executive Vice President of Operations of the French subsidiary of the Schindler Group, a leading global provider of elevators, escalators and related services. From 1978 to 1990, he held various positions at Compagnie Générale des Eaux (currently Veolia Environment) group, a world leader in water treatment, environmental services, and energy services; he was, in particular, member of the Board of Directors and Chief Executive Officer of subsidiaries of the group in France from 1987 to 1990 and Executive Vice President and Chief Operating Officer of the U.S. division from 1981 to 1986. In his early career he was successively a consultant at Arthur Andersen Paris, associate manager at First National Bank of Chicago, and project manager at the Institut de Développement Industriel (IDI) in Paris.

Bernard Jourdan holds a Master of Science in Management from the Sloan School of Management (MIT, Cambridge, USA), is an alumnus of Ecole Centrale de Paris (Engineering), and obtained an MS (DECS) in accounting from the University of Paris and a BA in economics from the University of Paris Assas.

Consolidated Statement of Financial Position

ASSETS As at December 31 (in thousands of euros)	2011	2010
Goodwill	31,309	30,999
Other intangible assets	4,742	5,452
Property, plant and equipment	11,589	11,066
Non-current financial assets	1,899	1,700
Deferred tax assets	9,543	12,938
Total non-current assets	59,081	62,155
Inventories	21,112	19,336
Trade accounts receivable	44,533	43,862
Current income tax receivable	10,841	6,918
Other current assets	6,346	4,674
Cash and cash equivalents	26,320	30,174
Total current assets	109,152	104,964
Total assets	168,233	167,119

EQUITY AND LIABILITIES (in thousands of euros)	2011	2010
Share capital	28,037	27,644
Share premium	2,487	1,039
Treasury shares	(722)	(386)
Currency translation adjustment	(8,816)	(8,877)
Retained earnings and net income	37,700	22,612
Total equity	58,686	42,032
Retirement benefit obligations	4,512	4,124
Borrowings, non-current portion	16,684	27,694
Total non-current liabilities	21,196	31,818
Trade and other current payables	46,696	49,120
Deferred revenues	35,722	35,835
Current income tax liabilities	1,776	537
Borrowings, current portion	1,005	4,905
Provisions for other liabilities and charges	3,152	2,872
Total current liabilities	88,351	93,269
Total equity and liabilities	168,233	167,119

Consolidated Income Statement

(in thousands of euros)	Three months ended December 31, 2011	Twelve months ended December 31, 2011	Three months ended December 31, 2010	Twelve months ended December 31, 2010
Revenues	52,608	205,923	50,261	190,290
Cost of goods sold	(15,678)	(61,613)	(15,002)	(54,193)
Gross profit	36,930	144,310	35,259	136,097
Research and development	(2,973)	(11,463)	(2,368)	(9,547)
Selling, general and administrative expenses	(26,722)	(103,925)	(26,641)	(103,701)
Income (loss) from operations before non-recurring items	7,235	28,922	6,250	22,849
Non-recurring income	-	-	-	3,291
Non-recurring expenses	-	-	(1,053)	(1,053)
Income (loss) from operations	7,235	28,922	5,197	25,087
Financial income	263	656	121	312
Financial expenses	(483)	(2,204)	(1,044)	(3,739)
Foreign exchange income (loss)	(177)	(165)	(11)	(1,254)
Income (loss) before tax	6,838	27,209	4,263	20,406
Income tax	(2,258)	(8,012)	(625)	(4,759)
Net income (loss)	4,580	19,197	3,638	15,647
(in euros)				
Earnings per share				
- basic	0.16	0.67	0.13	0.56
- diluted	0.16	0.65	0.13	0.55
Shares used in calculating earnings per share				
- basic	28,793,939	28,709,129	28,281,109	28,122,072
- diluted	29,332,311	29,368,796	28,690,608	28,316,516

Statement of Comprehensive Income

(in thousands of euros)	Three months ended December 31, 2011	Twelve months ended December 31, 2011	Three months ended December 31, 2010	Twelve months ended December 31, 2010
Net income (loss)	4,580	19,197	3,638	15,647
Currency translation adjustment	129	61	74	(292)
Effective portion of the change in fair value of currency hedges	-	-	(74)	-
Effective portion of the change in fair value of interest-rate swaps	140	837	316	1,033
Tax effect on the comprehensive income items	(49)	(284)	(87)	(351)
Comprehensive income (loss)	4,800	19,811	3,867	16,037

Consolidated Statement of Cash Flows

Twelve months ended (in thousands of euros)	2011	2010
I - OPERATING ACTIVITIES		
Net income (loss)	19,197	15,647
Depreciation and amortization	5,168	6,625
Other income on investing activities	-	(3,291)
Non-cash operating expenses	(40)	(109)
Loss (profit) on sale of fixed assets	(9)	148
Changes in deferred income taxes, net value	3,251	2,758
Changes in inventories	(1,646)	(1,557)
Changes in trade accounts receivable	(1,301)	139
Changes in other current assets and liabilities	(6,908)	16,800
Net cash provided by (used in) operating activities	17,712	37,160
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(906)	(1,277)
Purchases of property, plant and equipment	(2,837)	(1,071)
Proceeds from sales of intangible assets and property, plant and equipment	159	370
Award received	-	9,346
Purchases of financial assets	(117)	(1,336)
Proceeds from sales of financial assets	183	1,218
Net cash provided by (used in) investing activities	(3,518)	7,250
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	1,841	9
Dividends paid	(5,164)	-
Purchases of treasury shares	(1,017)	(349)
Sales of treasury shares	1,049	1,478
Proceeds from long term and short term borrowings	-	400
Repayments of long term and short term borrowings	(14,931)	(17,805)
Net cash provided by (used in) financing activities	(18,222)	(16,267)
Increase (decrease) in cash and cash equivalents	(4,028)	28,143

Cash and cash equivalents at the opening (1)	30,174	2,149
Increase (decrease) in cash and cash equivalents	(4,028)	28,143
Effect of changes in foreign exchange rates	174	(118)
Cash and cash equivalents at the closing	26,320	30,174
Free cash flow before non-recurring items	15,181	29,995
Non-recurring items of the free cash flow	(987)	14,415
Free cash flow	14,194	44,410

Income tax paid (reimbursed) (2)	254	109
Interest paid	1,487	2,777

(1) After deducting the amount of cash credit facilities used of €7.6 million at December 31, 2009. Cash credit facilities have not been used since June 30, 2010.

(2) This amount does not include repayments of (French) research tax credit

Consolidated Statement of Changes in Equity

(in thousands of euros, except for par value per share expressed in euros)	Share capital							
	Number of shares	Par value per share	Total par value	Share premium	Treasury shares	Currency translation adjustment	Retained earnings and net income	Equity
Balances at January 1, 2010	28,495,514	0.97	27,641	1,033	(1,439)	(8,585)	6,039	24,689
Net income (loss)							15,647	15,647
Other comprehensive income (loss)						(292)	682	390
Comprehensive income (loss)						(292)	16,329	16,037
Exercised stock options	3,500	0.97	3	5				9
Fair value of stock options							193	193
Sale (purchase) of treasury shares					1,053			1,053
Profit (loss) on treasury shares							51	51
Balances at December 31, 2010	28,499,014	0.97	27,644	1,039	(386)	(8,877)	22,612	42,032
Net income (loss)							19,197	19,197
Other comprehensive income (loss)						61	553	614
Comprehensive income (loss)						61	19,750	19,811
Exercised stock options	404,596	0.97	392	1,449				1,841
Fair value of stock options							257	257
Sale (purchase) of treasury shares					(336)			(336)
Profit (loss) on treasury shares							245	245
Dividends paid							(5,164)	(5,164)
Balances at December 31, 2011	28,903,610	0.97	28,037	2,487	(722)	(8,816)	37,700	58,686

NOTES TO THE Q4 2011 AND FY 2011 CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS ACTIVITY

Lectra was established in 1973 and has been listed on NYSE Euronext (compartment C) since 1987. Lectra is the world leader in software, CAD/CAM equipment and related services dedicated to large-scale users of textiles, leather and industrial fabrics. Lectra addresses a broad array of major global markets, including fashion (apparel, accessories, and footwear), automotive (car seats and interiors, airbags), and a wide variety of other industries, such as furniture, aeronautical and marine industries, wind turbines, etc.

The company's technology offering is geared to the specific needs of each market, enabling its customers to design, develop and manufacture their products (garments, seats, airbags, etc.). For the fashion industry, Lectra's software applications also enable the management of collections and cover the entire product lifecycle (Product Lifecycle Management, or PLM). Lectra forges long-term relationships with its customers and provides them with full-line, innovative solutions.

The Group's customers comprise large national and international corporations and medium-sized companies. Lectra helps them to overcome their major strategic challenges: e.g., cutting costs and boosting productivity; reducing time-to-market; dealing with globalization; developing secure electronic communications across the supply chain; enhancing quality; satisfying the demand for mass-customization; and monitoring and developing their corporate brands. The Group markets end-to-end solutions comprising the sale of software, CAD/CAM equipment and associated services (technical maintenance, support, training, consulting, sales of consumables and spare parts).

With the exception of a few products for which the company has formed long-term strategic partnerships, all Lectra software and equipment is designed and developed in-house. Equipment is assembled from sub-elements produced by an international network of subcontractors, and tested in the company's main industrial facilities in Bordeaux–Cestas (France) where most of Lectra's R&D is performed.

Lectra's strength lies in the skills and experience of its nearly 1,350 employees worldwide, encompassing expert R&D, technical and sales teams with deep knowledge of its customers' businesses.

The Group has been present worldwide since the mid-1980s. Based in France, the company serves 23,000 customers in more than 100 countries through its extensive network of 31 sales and services subsidiaries, which are backed by agents and distributors in some regions. Thanks to this unrivalled network, Lectra generated 90% of its revenues directly in 2011. Its five International Call Centers, at Bordeaux–Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (U.S.A.) and Shanghai (China) cover Europe, North America and Asia. All of the company's technologies are showcased in its International Advanced Technology & Conference Center at Bordeaux–Cestas (France) for Europe and international visitors, and its two International Advanced Technology Centers at Atlanta (U.S.A.) for North and South America, and Shanghai (China) for Asia and the Pacific. Lectra is geographically close to its customers wherever they are, with nearly 740 employees dedicated to marketing, sales and services. It employs 220 engineers dedicated to R&D, and 150 employees in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

Business Model

Lectra's business model comprises two types of revenue streams:

- revenues from new systems sales (new software licenses and CAD/CAM equipment, and related services), the company's growth driver;
- recurring revenues, consisting partly of recurring contracts (e.g., software evolution, CAD/CAM equipment maintenance and on-line support contracts), and partly of other statistically recurring revenues generated by the installed base (sales of spare parts and consumables, and per-call maintenance and support interventions). These recurring revenues are a key factor in the company's stability, acting as a cushion in periods of slow overall economic growth.

In addition, the business model is geared to generating free cash flow in excess of net income assuming utilization or receipt of the annual research tax credit applicable in France.

2. SUMMARY OF ACCOUNTING RULES AND METHODS

The consolidated financial statements are compliant with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board as adopted within the European Union, and available for consultation on the European Commission website:

http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

The consolidated financial statements at December 31, 2011 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2010 financial statements. They have been prepared under the responsibility of the Board of Directors at its meeting of February 9, 2012. Audit procedures have been applied to the consolidated financial statements. The statutory auditors' certification report will be issued after the Board of Directors meeting on February 23, 2012, which will approve the notes to the consolidated financial statements. The Q4 financial statements have not been reviewed separately.

The standards and interpretations adopted by the European Union as of January 1, 2011 had no impact on the Group's financial statements, i.e.:

- IAS 24 – Related party disclosures;
- IAS 32 amendment – Classification of rights issues;
- IFRS 1 amendment – Limited exemption from comparative IFRS 7 disclosures for first-time adopters;
- Annual improvements to IFRS 2010;
- IFRIC 19 – Extinguishing financial liabilities with equity instruments;
- IFRIC 14 amendment – Prepayments of a minimum funding requirement.

The Group has not adopted, before they become mandatory, any standards, amendments or interpretations whose application is not required for fiscal years starting January 1, 2011. It does not expect their adoption to have a material impact on the financial statements.

Comparisons identified as "like-for-like" correspond to 2011 figures restated at 2010 exchange rates, in comparison with actual data for 2010.

Critical Accounting Estimates and Judgments

Preparation of the financial statements in accordance with IFRS demands that certain critical accounting estimates be made. Management is also required to exercise its judgment in applying the

Group's accounting policies. Although such estimates are made in a particularly uncertain environment, the Group’s business model supports their relevance.

The areas involving a higher degree of judgment or complexity, or requiring material assumptions and estimates in relation to the consolidated financial statements, concern goodwill impairment and deferred taxation.

Revenues

Revenues from sales of hardware are recognized when the significant risks and benefits relating to ownership are transferred to the purchaser.

For hardware, or for software in cases where the company also sells the computer equipment on which the software is installed, these conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms.

For software not sold with the hardware on which it is installed, these conditions are generally fulfilled at the time of installation of the software on the customer’s computer (either by CD-Rom or downloading).

Revenues from software evolution contracts and recurring services contracts are booked monthly over the duration of the contracts.

Revenues from the billing of services not covered by recurring contracts are recognized at the time of performance of the service or, where appropriate, on a percentage of completion basis.

Cost of Goods Sold

Cost of goods sold comprises all purchases of raw materials included in the costs of manufacturing, the change in inventory and inventory write-downs, all labor costs included in manufacturing costs which constitute the added value, freight-out costs on equipment sold, and a share of depreciation of the manufacturing facilities.

Cost of goods sold does not include salaries and expenses associated with service revenues, which are included under “Selling, General and Administrative Expenses”.

Research and Development

The technical feasibility of software and hardware developed by the Group is generally not established until a prototype has been produced or until feedback is received from its pilot sites, conditioning their commercialization. Consequently, the technical and economic criteria that render the recognition of development costs in assets at the moment they occur are not met, and the latter, as well as research costs, are therefore expensed in the year in which they are incurred.

The (French) research tax credit *(crédit d’impôt recherche)* as well as grants linked to R&D projects, if any, are deducted from R&D expenses.

Earnings per share

Basic net earnings per share are calculated by dividing net income by the weighted-average number of shares outstanding during the period, excluding the weighted average number of treasury shares.

Diluted net earnings per share are calculated by dividing net income by the weighted-average number of shares adjusted for the dilutive effect of stock options outstanding during the period and excluding the weighted average number of treasury shares held exclusively under the Liquidity Agreement.

The dilutive effect of stock options is computed in accordance with the share repurchase method provided in the revised version of IAS 33. The assumed proceeds from exercise of stock options are regarded as having been used to repurchase shares at the average market price during the period.

The number of shares thus obtained is deducted from the total number of shares resulting from the exercise of stock options.

Only options with an exercise price below the said average share price are included in the calculation of the number of shares representing the diluted capital.

Borrowings and Financial Debt

The non-current portion of borrowings and financial debt comprises the portion due in more than one year of:

- interest-bearing bank loans;
- non-interest bearing reimbursable advances corresponding to R&D grants.

The current portion of borrowings and financial debt comprises:

- the portion of bank loans, reimbursable advances and other borrowings and financial debt due in less than one year;
- cash facilities, where applicable.

Borrowings and financial debts are recognized initially at fair value.

At balance sheet date, borrowings and financial debt are stated at amortized cost using the effective interest rate method, defined as the rate whereby cash received equals the total cash flows relating to the servicing of the borrowing. Interest expenses on the bank loans and on the utilization of cash credit facilities are recognized as financial expenses in the income statement.

Free Cash Flow

Free cash flow is equal to net cash provided by operating activities minus cash used in investing activities—excluding cash used for acquisitions of companies (net of cash acquired).

Operating Segments

Operating segment reporting is based directly on the company's performance tracking and review systems. The operating segments presented in note 6 are identical to those covered by the information regularly communicated to the Executive Committee, in its capacity as the company's "chief operating decision maker".

Operating segments refer to the major marketing regions in the sense of the regions whose performance is reviewed by the Executive Committee. The regions concerned are: the "Americas", "Europe", "Asia-Pacific", and the "Rest of the World", where the company operates chiefly in Northern Africa, South Africa, Turkey, Israel, and the Middle East. These regions are involved in sales and the provision of services to their customers. They do not perform any industrial activities or R&D. They draw on centralized competencies and a wide array of functions that are pooled among all of the regions, including marketing, communication, logistics, procurement, finance, legal affairs, human resources, information systems, etc. All of these cross-divisional activities are reported as an additional operating segment referred to here as the "Corporate" segment.

Performance is measured by the segment's income from operations before non-recurring items and impairment of assets, if any. Marketing regions derive their revenues from external customers; all inter-segment billings are excluded from this item. The gross profit margin rates used to determine operating performance are identical for all regions. They are computed for each product line and include value added supplied by the Corporate segment. Consequently, for products or services supplied in full or in part by the Corporate segment, a percentage of consolidated gross profit is retained in the income computed for the Corporate segment sufficient to cover its costs. Because the Corporate segment's general overheads are mainly fixed costs, its gross profit and consequently its income from operations therefore depend mainly on the volume of business billed by these regions.

3. SCOPE OF CONSOLIDATION

At December 31, 2011, the Group's scope of consolidation comprised Lectra S.A. together with 26 fully-consolidated companies.

A subsidiary, Lectra Russia, was created in October 2011 and consolidated for the first time on December 31, 2011. The consolidation of Lectra Russia has had no material impact on the Group's financial statements at December 31, 2011.

There were no other changes in the scope of consolidation in 2011.

Five sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and in the aggregate. At December 31, 2011, their combined revenues totaled €2 million, and their combined assets in their statement of financial position totaled €2.2 million. They had no non-Group financial debt. Most of these subsidiaries' sales activity is billed directly by the parent company, Lectra SA.

Transactions with these related parties mainly refer to purchases from the parent for the purposes of their local activity, or to expenses and commissions billed to the parent in order to cover their operating costs when acting as an agent. The amount concerned by these transactions was not material in 2011.

4. CONSOLIDATED STATEMENT OF INCOME—LIKE-FOR-LIKE CHANGE

4.1 Q4 2011

	Three Months Ended December 31				
	2011		2010	Changes 2011/2010	
(in thousands of euros)	Actual	At 2010 exchange rates	Actual	Actual	Like-for-like
Revenues	52,608	52,200	50,261	+5%	+4%
Cost of goods sold	(15,678)	(15,638)	(15,002)	+5%	+4%
Gross profit	36,930	36,562	35,259	+5%	+4%
(in % of revenues)	70.2%	70.0%	70.2%	0 point	-0.2 point
Research and development	(2,973)	(2,973)	(2,368)	+26%	+26%
Selling, general and administrative expenses	(26,722)	(26,635)	(26,641)	0%	0%
Income (loss) from operations before non-recurring items	7,235	6,954	6,250	+16%	+11%
(in % of revenues)	13.8%	13.3%	12.4%	+1.4 points	+0.9 point
Non-recurring expenses	-	-	(1,053)	ns	ns
Income (loss) from operations	7,235	6,954	5,197	+39%	+34%
(in % of revenues)	13.8%	13.3%	10.3%	+3.5 points	+3.0 points
Income (loss) before tax	6,838	6,556	4,263	60%	54%
Income tax	(2,258)	na	(625)	ns	na
Net income (loss)	4,580	na	3,638	26%	na

4.2 Fiscal Year 2011

	Twelve Months Ended December 31				
	2011		2010	Changes 2011/2010	
(in thousands of euros)	Actual	At 2010 exchange rates	Actual	Actual	Like-for-like
Revenues	205,923	208,875	190,290	+8%	+10%
Cost of goods sold	(61,613)	(61,890)	(54,193)	+14%	+14%
Gross profit	144,310	146,985	136,097	+6%	+8%
(in % of revenues)	70.1%	70.4%	71.5%	-1.4 points	-1.1 points
Research and development	(11,463)	(11,463)	(9,547)	+20%	+20%
Selling, general and administrative expenses	(103,925)	(104,727)	(103,701)	0%	+1%
Income (loss) from operations before non-recurring items	28,922	30,795	22,849	+27%	+35%
(in % of revenues)	14.0%	14.7%	12.0%	+2.0 points	+2.7 points
Non-recurring income	-	-	3,291	ns	ns
Non-recurring expenses	-	-	(1,053)	ns	ns
Income (loss) from operations	28,922	30,795	25,087	+15%	+23%
(in % of revenues)	14.0%	14.7%	13.2%	+0.8 point	+1.5 points
Income (loss) before tax	27,209	29,082	20,406	33%	43%
Income tax	(8,012)	na	(4,759)	ns	na
Net income (loss)	19,197	na	15,647	23%	na

5. BREAKDOWN OF REVENUES—LIKE-FOR-LIKE CHANGE

5.1 Q4 2011

Revenues by geographic region

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Europe, of which :	23,041	44%	23 033	26,033	52%	-11%	-12%
- France	4,545	9%	4 545	5,227	10%	-13%	-13%
Americas	11,269	21%	11 232	10,611	21%	+6%	+6%
Asia-Pacific	15,450	29%	14 968	9,565	19%	+62%	+56%
Other countries	2,848	5%	2 966	4,052	8%	-30%	-27%
Total	52,608	100%	52,200	50,261	100%	+5%	+4%

Three Months Ended December 31

Revenues by product line

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Software, of which :	13,338	25%	13,274	13,422	27%	-1%	-1%
- New licenses	5,626	11%	5,583	5,953	12%	-5%	-6%
- Software evolution contracts	7,711	15%	7,691	7,469	15%	+3%	+3%
CAD/CAM equipment	16,244	31%	16,039	14,061	28%	+16%	+14%
Hardware maintenance and on-line services	8,844	17%	8,779	8,870	18%	-0%	-1%
Spare parts and consumables	11,783	22%	11,725	11,363	23%	+4%	+3%
Training and consulting services	2,256	4%	2,241	2,414	5%	-7%	-7%
Miscellaneous	143	0%	143	131	0%	+10%	+9%
Total	52,608	100%	52,200	50,261	100%	+5%	+4%

Three Months Ended December 31

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Revenues from new systems sales (1)	24,270	46%	24,005	22,559	45%	+8%	+6%
Recurring revenues (2), of which :	28,338	54%	28,195	27,702	55%	+2%	+2%
- Recurring contracts	16,034	30%	15,958	15,873	32%	+1%	+1%
- Other recurring revenues on the installed base	12,304	23%	12,237	11,829	23%	+4%	+3%
Total	52,608	100%	52,200	50,261	100%	+5%	+4%

Three Months Ended December 31

(1) Revenues from sales of new systems comprise sales of new software licenses, CAD/CAM equipment, PC's and peripherals, and related services.

(2) Recurring revenues fall into two categories :

- software evolution, hardware maintenance and online support contracts, which are renewable annually,

- revenues from sales of spare parts and consumables, and one-off interventions, on the installed base, which are statistically recurrent.

5.2 Fiscal year 2011

Revenues by geographic region

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Europe, of which :	98,712	48%	98 646	97,314	51%	+1%	+1%
- France	20,129	10%	20 129	19,230	10%	+5%	+5%
Americas	43,835	21%	45 784	40,753	21%	+8%	+12%
Asia-Pacific	52,660	26%	53 560	39,934	21%	+32%	+34%
Other countries	10,716	5%	10 885	12,289	7%	-13%	-11%
Total	205,923	100%	208,875	190,290	100%	+8%	+10%

Twelve Months Ended December 31

Revenues by product line

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Software, of which :	55,057	27%	55,659	53,452	28%	+3%	+4%
- New licenses	25,276	12%	25,646	23,641	12%	+7%	+8%
- Software evolution contracts	29,781	14%	30,014	29,811	16%	-0%	+1%
CAD/CAM equipment	63,007	31%	64,599	51,734	27%	+22%	+25%
Hardware maintenance and on-line services	34,657	17%	34,855	35,777	19%	-3%	-3%
Spare parts and consumables	43,739	21%	44,251	40,205	21%	+9%	+10%
Training and consulting services	8,932	4%	8,975	8,579	5%	+4%	+5%
Miscellaneous	532	0%	534	543	0%	-2%	-2%
Total	205,923	100%	208,875	190,290	100%	+8%	+10%

Twelve Months Ended December 31

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Revenues from new systems sales[1]	97,746	47%	99,754	84,497	44%	+16%	+18%
Recurring revenues[2], of which :	108,177	53%	109,121	105,793	56%	+2%	+3%
- Recurring contracts	62,579	30%	63,013	63,787	34%	-2%	-1%
- Other recurring revenues on the installed base	45,599	22%	46,108	42,006	22%	+9%	+10%
Total	205,923	100%	208,875	190,290	100%	+8%	+10%

Twelve Months Ended December 31

(1) Revenues from sales of new systems comprise sales of new software licenses, CAD/CAM equipment, PC's and peripherals, and related services.

(2) Recurring revenues fall into two categories :

- software evolution, hardware maintenance and online support contracts, which are renewable annually,

- revenues from sales of spare parts and consumables, and one-off interventions, on the installed base, which are statistically recurrent.

Breakdown of revenues from new systems sales by market sector

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Fashion (apparel, accessories, footwear)	47,777	49%	48,692	46,825	55%	+2%	+4%
Automotive	37,558	38%	38,477	21,550	26%	+74%	+79%
Furniture	6,067	6%	6,050	6,599	8%	-8%	-8%
Other industries	6,344	6%	6,535	9,523	11%	-33%	-31%
Total	97,746	100%	99,754	84,497	100%	+16%	+18%

Twelve Months Ended December 31

6. OPERATING SEGMENT INFORMATION

2010 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	97,314	40,753	39,934	12,289	-	190,290
Income (loss) from operations before non-recurring items	8,398	(620)	17	1,667	13,387	22,849

2011 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	98,712	43,835	52,660	10,716	-	205,923
Income from operations before non-recurring items	8,801	612	1,632	1,386	16,491	28,922

Income from operations, which is obtained by adding together the income for each segment, is identical to consolidated income from operations shown in the Group's consolidated financial statements and therefore does not require reconciliation.

7. CONSOLIDATED CASH FLOW SUMMARY

(in millions of euros)	Cash and cash equivalent	Financial debts	Net cash (+) Net debt (–)
Free cash flow before non-recurring items	15.2	-	15.2
Non-recurring items included in free cash flow	(1.0)	-	(1.0)
Proceeds from issuance of ordinary shares (1)	1.8	-	1.8
Sale and purchase of treasury shares (2)	0.0	-	0.0
Dividends paid	(5.2)	-	(5.2)
Change in borrowings	(14.9)	14.9	-
Impact of currency variations - other	0.2	-	0.2
Change in cash position for the period	(3.9)	14.9	11.0
Cash and cash equivalents at December 31, 2010	30.2	(32.6)	(2.4)
Cash and cash equivalents at December 31, 2011	26.3	(17.7)	8.6
Change in cash position for the period	(3.9)	14.9	11.0

(1) *Resulting solely from the exercise of stock options.*

(2) *Carried out solely under the Liquidity Agreement administered by SG Securities (Société Générale).*

Free cash flow at December 31, 2011 amounts to €14.2 million.

Excluding the disbursements of non-recurring items (corresponding to the costs of restructuring measures deployed in 2011 and provisioned in the 2010 financial statements), free cash flow was

€15.2 million. This figure results from a combination of €16.7 million in cash flows provided by operating activities (out of which an increase in working capital requirement of €8.9 million) and of €3.5 million in capital expenditures.

The main variations are:

- +€1.6 million corresponding to an increase in inventories, due to the steep increase in revenues from CAD/CAM equipment and spare parts and consumables;
- +€1.3 million corresponding to an increase in customer accounts receivable, although revenues have risen;
- −€3.6 million corresponding to an increase in trade accounts payable as a result of the sharp rise in volumes purchased for the production of CAD/CAM equipment and spare parts and consumables;
- +€4.1 million arising from the increase in the (French) research tax credit receivable, the amount recognized but not received in 2011 (€5.5 million) having been reduced by the income tax charge due in respect of 2011 (€1.4 million);
- +€3.2 million arising from the decrease in down-payments from customers, due to the fall in order volumes in Q4;
- +€1.9 million arising from the difference between the variable portion of salaries for the Group and of the incentive plan of the parent company Lectra SA *(prime d'intéressement)* in respect of fiscal 2010 and paid in 2011, and the same amounts recognized in fiscal 2011 and payable in 2012.

The total increase in working capital requirement, including €1 million of non-recurring items, amounted to €9.9 million.

As approved by the Shareholders' Meeting of April 29, 2011, the company declared a dividend of €0.18 per share in respect of fiscal year 2010, representing a total amount of €5.2 million, which was paid on May 10, 2011.

8. LITIGATION WITH INDUYCO PENDING

See note 23 to the 2011 consolidated financial statements for a detailed discussion of this dispute.

In its ruling on October 21, 2009, the International Court of Arbitration awarded Lectra €26 million (as of December 31, 2011)

In June 2005, Lectra initiated arbitration proceedings against Induyco (a member of the Spanish group El Corte Inglés), the former shareholder of Investronica Sistemas, following the acquisition of this company. Under the stock purchase agreement signed on April 2, 2004, the parties agreed that any disputes arising out of the stock purchase agreement would be finally settled by international arbitration under the Rules of the International Chamber of Commerce in London, England.

In its decision of October 21, 2009, the international arbitral tribunal awarded Lectra €21.7 million (plus interest):

- award on the merits: €15.1 million (plus interest since June 30, 2005 and post-award interest until payment);
- award as costs: €6.6 million (plus post-award interest from the time of the decision until payment).

Induyco refused to honor the award, which was binding on it under international law, and commenced an action in England to set aside the award (the London High Court of Justice dismissed this action in its entirety and denied leave to appeal). Induyco also commenced proceedings in Spain to prevent Lectra from recovering the amounts due to it under the award.

Following the September 20, 2010 decision of the Madrid Court of Appeals, Lectra called on the first demand bank guarantees provided by Induyco and received €15.1 million.

In view of Induyco's persistent refusal to pay the outstanding €10.9 million still due, Lectra commenced an action of *exequátur* before the Madrid Court of First Instance at the end of December 2010, in order to enforce in Spain the arbitral award and recover the remaining amounts owed by Induyco.

In its decision of *exequátur* issued on June 27, 2011, the Madrid Court of First Instance recognized the arbitral award rendered against Induyco by the International Arbitral Tribunal. It has thus recognized the award is valid and enforceable in Spain and rejected Induyco's challenge to *exequátur*.

This decision of the Madrid Court of First Instance, against which Induyco has appealed (the two parties' conclusions were filed at the end of 2011), represents a major milestone in the settlement of this dispute. It reinforces Lectra in its commitment to vigorously enforce its rights and to recover the full amount due to it under the award.

The Company Has Recognized Only €15.1 Million of the Full Amount of the €26 Million Arbitral Award

In the 2010 consolidated financial statements, the receipt of €15.1 million resulted in a €6.1 million reduction in goodwill and a net non-recurring gain of €3.3 million resulting from a non-recurring gain of €9 million less legal costs (€5.7 million) previously recognized in other current assets.

Induyco having appealed the June 27, 2011 decision, this decision does not entail any modification of the recognition of the award in the company's financial statements: the balance (€10.9 million) of the total amount of the award (€26 million at December 31, 2011) still due by Induyco was not recorded in the financial statements and will only be recorded upon its receipt.

As all of the costs incurred by Lectra have already been paid, execution of the arbitral decision will result in a cash inflow equal to the balance of the award still owed by Induyco.

9. TREASURY SHARES

Under the Liquidity Agreement administered by SG Securities (Paris), from January 1 to December 31, 2011, the company purchased 185,256 shares and sold 195,142 shares at an average purchase price of €5.49 and €5.37 respectively.

Consequently, at December 31, 2011, the company held 133,854 Lectra shares (or 0.5% of share capital) with an average purchase price of €5.39 entirely under the Liquidity Agreement.

Under the Liquidity Agreement, an additional amount of €1 million in cash, but not exceeding the equivalent of 150,000 shares, could be placed by the company at the disposal of SG Securities, further to the 430,260 shares and €176,000 in cash (making a total equivalent value of €1.9 million) placed at its disposal at the date of signature of the agreement.

10. BANK BORROWINGS AND LIQUIDITY

10.1 Borrowings and Financial Debts by Category and by Maturity

At December 31, 2011, the repayment schedule is as follows:

(in thousands of euros)	Short term Less than 1 year	Long term Between 1 and 5 years	 More than 5 years	Total
Bank loan [(1)]	560	15,360	-	15,920
Interest-free repayable advances [(2)]	445	1,324	-	1,769
Cash facilities	-	-	-	-
Total	1,005	16,684	-	17,689

(1) The repayment dates of the borrowing used in the table above are the contractual payment dates, at the latest, in light of repayments already made as at December 31, 2011, without taking into account the accelerated repayments under the various contract clauses concerned.
(2) The repayable advances correspond to public grants to finance R&D programs.

10.2 Medium-term Bank Loan

In 2007, the company contracted a €48 million medium-term bank loan from Société Générale and Natixis in order to finance the public stock buyback tender offer for 20% of the company's share capital, carried out in May 2007, at a price of €6.75 per share.

The first two half-yearly installments of €3.8 million each were repaid on June 30 and December 31, 2010. Additionally, and in light of its sharply improved cash position in the course of 2010, the company made a voluntary repayment of €10 million on December 31, 2010, ahead of the scheduled repayment date. This voluntary repayment replaced the contractual half-yearly installments due in respect of 2011, which were consequently reduced to €0.6 million and effectively repaid at December 31, 2011. At December 31, 2011, the company had made a second repayment of €10 million ahead of schedule, which similarly substitutes for the contractual half-year repayments due in 2012.

A supplemental repayment of €3.8 million took place on June 30, 2011 pursuant to the excess cash flow clause in the loan contract, in virtue of the sharp increase in cash and cash equivalents as at December 31, 2010.

Repayments made are summarized in the table below:

(in thousands of euros)	2011	2010
Balance of loan outstanding at January 1	30,320	48,000
Contractual repayments	(560)	(7,680)
Early repayments (at company's initiative)	(10,000)	(10,000)
Application of excess cash flow clause	(3,840)	-
Balance of loan outstanding at December 31	15,920	30,320

(in thousands of euros)

The balance outstanding on the loan, i.e. €15.9 million, is repayable in three half-yearly installments as from December 31, 2012—the first one for €0.6 million (on December 31, 2012), the following one for €9.6 million (June 30, 2013) and the last one for €5.8 million (on December 31, 2013).

In 2010, the loan carried interest at the 3-month Euribor rate plus a margin that was set at 1.85% per year. As provided under the contract, this margin was reduced to 0.95% per year as from January 1, 2011 given the leverage ratio of fiscal year 2010.

The company had hedged in 2007 its interest-rate risk exposure on part of the loan by converting this floating rate into a fixed rate via two interest-rate swaps (see note 11 below). The total effective interest rate after including the cost of the hedging instruments and amounts hedged is 5.24% for fiscal year 2011.

10.3 Covenants

The company is bound during the period of the loan to respect at December 31 of each year the covenants governing the ratios between its net financial borrowing and shareholders' equity ("gearing") on the one hand, and between net financial borrowing and EBITDA ("leverage") on the other. A loan covenant provides for early repayment of the loan in its entirety in the event of failure to comply with these ratios; in that event the company would contact its banks in order to come to a satisfactory arrangement.

The ratios to be respected of each year until the maturity of this loan are as follows:

	2011	2012
Leverage	< 1.7	< 1.7
Gearing	< 1	< 1

Given that the Group's cash and cash equivalents available exceed its financial debt at December 31, 2011 (see note 10.4), the two covenants are *de facto* respected by the company.

At the same time, the loan contract entitles the banks to demand early repayment of the balance of the loan outstanding under a "change of control" clause in the event that one or more of the company's shareholders, acting in concert—with the exception of André Harari and/or Daniel Harari—came to hold more than 50% of the share capital and/or voting rights. The company has undertaken to limit its capital expenditures to €10 million per year and the dividends distributed to 50% of the consolidated net income for the year elapsed, subject to certain conditions (if less than 50% of consolidated net income for a given year has been distributed, the difference relative to 50% may be distributed in subsequent years). Payment of the total dividend of €5.2 million in respect of fiscal 2010 is consistent with this condition.

Furthermore, the contract provides for accelerated repayment of the portion actually collected of the arbitral award against Induyco. The receipt of €15.1 million in 2010 had not given rise to early repayment, the threshold above which this clause applies not having been reached in regard to the aggregate legal fees and costs incurred by Lectra since the start of the proceedings, these having been deducted from the indemnity received for the purpose of calculating a repayment, if applicable. On the other hand, receipt of the balance of the arbitral award (€10.9 million) still owed by Induyco will give rise to early repayment amounting to almost 50% of the total amount to be received (see note 8).

10.4 Cash and Cash Equivalents and Net Cash

The €14 million in cash facilities outstanding at December 31, 2010 expired in June 2011. The company decided not to renew these cash facilities, in light of the cash surplus available to it.

At December 31, 2011, the Group's cash and cash equivalents amounted to €26.3 million. Net cash therefore totaled €8.6 million (versus net financial borrowings of €2.4 million at December 31, 2010).

11. INTEREST-RATE HEDGING INSTRUMENTS

As stated in note 10 above, the company has hedged its exposure to the interest-rate risk on part of the €48 million medium-term bank loan, converting the floating rate payable on the loan (3-month Euribor rate) into a fixed rate via two interest-rate swaps contracts. The interest-rate has been hedged on the basis of the best estimate of the amount of the loan over the different periods covered, having due regard to the contract terms.

Since the face value of these swaps remains lower than the face value of the loan, they meet the hedge accounting criteria as defined by IFRS. Their fair value at December 31, 2011 is a negative

€0.3 million. The effective portion, corresponding to their full fair value, is entirely recognized in shareholders' equity. No ineffective part has been booked in net financial expenses in 2011.

As at January 1, 2012, the nominal value of interest-rate swaps has been reduced to €13 million. This amount will be reduced to €5 million at July 1, 2012 and until December 31, 2012, when the swaps expire.

Consequently, and in the theoretical event that the 3-month Euribor rate remains identical to that at December 31, 2011 (1.36%), the total effective implied interest rate including the cost of the hedging instruments and the amounts hedged would be 5.13% in the first half of 2012, 3.41% in the second half of 2012, and 2.34% in 2013.

12. CURRENCY RISK

The Group's exposure to currency risks and its currency risk management policy are unchanged relative to December 31, 2010.

In 2011, the average dollar/euro parity was $1.39/€1.

Exchange Risk Hedging Instruments

Exchange risk hedging instruments at December 31, 2011 are comprised of forward sales or purchases of foreign currencies (mainly U.S. dollars, Canadian dollars, Japanese yen, and British pounds) for a net total equivalent value (sales minus purchases) of €4.2 million, intended to hedge existing positions.

13. SENSITIVITY ANALYSIS

Sensitivity of Income from Operations to a Change in the Revenues from New Systems Sales

Under the company's business model, each €1 million increase (or decrease) in revenues from new systems sales results in a rise (or fall) in income from operations of approximately €0.45 million.

Sensitivity of Revenues and Income from Operations to a Change in the Dollar/Euro Parity

The average parity assumed for the 2012 budget was $1.30/€1 (versus an actual parity of $1.39/€1 in 2011).

Given the estimated share of revenue and expenses denominated in dollars or in currencies correlated with the dollar, an average rise of $0.05 in the dollar against the euro (bringing the parity from $1.30/€1 to $1.25/€1) would mechanically increase 2012 revenues by around €2.5 million and income from operations by €1.3 million. Conversely, a $0.05 fall in the dollar against the euro (bringing the average parity to $1.35/€1) would reduce revenues and income from operations by the same amounts.

14. TAX AUDIT OF LECTRA SA

A tax audit has been ongoing since June 2010 at the parent company, Lectra SA, concerning fiscal years 2008 and 2009, and was completed in the first quarter of 2011. The tax arrears notified by the tax authorities to the company chiefly concern the (French) research tax credit. Their amount is not deemed material and was fully provisioned at December 31, 2010.